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Iowa Lottery Report On Operations

To: Members of the House Government Oversight Committee and Senate Government Oversight Committee

From: Dr. Ed Stanek, President and CEO

Date: June 2007

The Iowa Lottery has seen strong sales in fiscal year 2007, with sales of its existing products on track to increase by more than 7 percent overall. April is the latest month for which the lottery has complete revenue and expense figures. The figures show that sales of existing lottery products were up about 7.6 percent compared to the same time period in FY 2006.

Sales of instant-scratch tickets, the first product introduced by the Iowa Lottery and always one of its sales leaders, were up 19 percent compared to a year earlier, as were sales of pull-tab tickets, another large product category for the lottery.

Powerball sales for the year were down about 15 percent through April. Although changes in Powerball that increased the starting jackpot from \$10 million to \$15 million and raised the next prize level from \$100,000 to \$200,000 have helped strengthen sales overall, fiscal year 2006 sales were lifted further by a record jackpot in the game at \$365 million. (That prize was won in February 2006 by a group of eight Nebraska workers.)

Hot Lotto sales for the year were up about 46 percent, driven in large part by a \$19.9 million jackpot that was won by an Indianola man. That jackpot was the largest ever offered in Hot Lotto since its start in 2002.

Overall lottery sales and proceeds to the state will be down in fiscal year 2007 following the discontinuation of the TouchPlay project. Year-to-year comparisons for the lottery's sales categories are (July-April time period):

	FY 2007	FY 2006	Approx. Change
Instant-scratch games	\$104 million	\$87.7 million	+ 19 percent
Pick 3	\$5.2 million	\$5 million	+ 3 percent
Powerball	\$52.8 million	\$62.2 million	- 15 percent
Hot Lotto	\$12 million	\$8.2 million	+ 46 percent
Pick 4	\$1.8 million	\$1.7 million	+ 8 percent
\$100,000 Cash Game	\$3.64 million	\$3.60 million	+ 1 percent
Pull-tab games	\$17.7 million	\$14.8 million	+ 19 percent
TouchPlay	\$0	\$121.7 million	- 100 percent

\$1 Billion In Lottery Proceeds To The State

In fiscal year 2006, lottery proceeds to state programs topped the \$1 billion mark. While the lottery continues to add to that total each month, we thought it would be informative to provide a breakdown of how lottery profits have been used to benefit state programs since the Iowa Lottery's start in 1985. The figures below illustrate the \$1.07 billion in lottery profits to the state through April 2007:



\$170,318,439

Iowa Plan

The Iowa Plan was a long-term economic development program. The Iowa Plan was divided into four basic areas: a Jobs Now program designed to put people to work; government construction programs; community and economic betterment; and educational and agricultural research. Lottery profits were dedicated to the Iowa Plan from fiscal year 1986 through fiscal year 1990.

\$35,894,355

CLEAN Fund

The CLEAN Fund stood for Committing the Lottery to Environment, Agriculture and Natural Resources. The program dedicated money to environmental and cultural causes. Lottery profits were dedicated to the CLEAN Fund during fiscal year 1991.

\$832,829,402

General Fund

Within the state budget, the general fund provides money to a variety of vital projects in Iowa. Some of the programs that receive money from the general fund include education, natural resources, health and family services and public safety. The Governor and the Iowa Legislature allocate money from the general fund based on where they believe those funds are needed most. Since 1992, Iowa Lottery proceeds have been directed to the General Fund.

\$13,072,113

Iowa Gamblers Treatment Fund

The Iowa Lottery is committed to responsible play and helping to address the issue of compulsive gambling. The state Gambling Treatment Program provides treatment, counseling and outreach programs as well as the 1-800-BETSOFF helpline. A portion of lottery profits are dedicated to the Gambling Treatment Program each year.

\$13,773,572

Special Appropriations

A portion of lottery profits have been earmarked by the Legislature for specific purposes within the state budget.

\$19.97 Million Hot Lotto Jackpot Winner In Iowa

The Iowa Lottery saw its third big jackpot winner in three years when a central Iowa man claimed a record Hot Lotto jackpot.



John Hall of Indianola claimed a \$19.97 million Hot Lotto jackpot on Feb. 2. His big win followed those of Hugh Hawkins of Des Moines, who won a \$113.2 million Powerball jackpot in the drawing on Dec. 14, 2005; and Tim and Kellie Guderian of Fort Dodge, who won a \$200.8 million Powerball jackpot in the drawing on Sept. 23, 2006.

Hall, 40, who owns a basement waterproofing company in Des Moines, won his Hot Lotto jackpot with just the third ticket he had ever purchased in the game. He purchased his winning ticket at Hy-Vee Gas, 912 Jefferson St. in Indianola. His \$19.97 million prize was the largest jackpot offered in the game since its start in 2002.

The winning numbers in the Jan. 13 Hot Lotto drawing were: 3-18-27-38-39 and Hot Ball 10. The Indianola Hy-Vee Gas location received a \$5,000 bonus for selling

the jackpot-winning ticket.

Hot Lotto began in April 2002, offering Powerball-style play but with easier odds. Tickets are sold in Iowa, eight other states and the District of Columbia. Hot Lotto players choose five numbers from a pool of 39 and another number, called the Hot Ball, from a pool of 19. The Hot Lotto jackpot starts at \$1 million and grows until someone wins it. Tickets in the game cost \$1. Hot Lotto drawings are held Wednesdays and Saturdays, just before the Powerball drawings.

John Hall chose to receive his jackpot in a lump-sum payment of \$11.9 million (\$8.3 million after state and federal withholding). At the time he claimed his prize, he did not have specific plans for it, but he did plan to continue working.

Iowa Lottery players now have won six jackpots in Hot Lotto.

Security Awareness Reminders To Guard Against Scams and Fraud

The Iowa Attorney General's Office and the Iowa Lottery are working together to remind the public to be on the look-out for scam attempts and to guard against fraud attempts.

In January, Iowa Attorney General Tom Miller and Lottery CEO Dr. Ed Stanek held a news conference in Des Moines to issue a joint warning about counterfeit-check lottery scams – mailings that have induced Iowans to wire off thousands of dollars to try to claim what are described as large lottery or sweepstakes prizes. The mailings being received by Iowans appear to be part of a wave of scam attempts blanketing the country.



"The crooks get the money, and the victim gets nothing but a big loss and the bank coming back for its money," Miller said during the January news conference. "Typical victims lose \$2,900 to \$3,900 or more, with the promised winnings never to be seen. And the crooks are almost certainly in Canada, Africa or Europe, impossible to trace and punish. Consumers have to be smart and reject this wave of lottery scams, and all forms of counterfeit check scams."

The Iowa Lottery and Attorney General's Office have received scores of letters, calls and e-mails in recent months from Iowans about the scams. And, the scams are becoming more sophisticated – many are now using the names of real lotteries and well-known logos such as that for the Powerball game.

Many Iowans have had close calls – they were so curious about "prize award" letters they'd received that they contacted authorities to ask if they were real.

"The volume of inquiries we're receiving tells us we need to educate Iowans about the dangers of these scams," Stanek said during the January news conference. "Remember that the only lottery legally authorized to operate in Iowa is the Iowa Lottery. You have to buy a ticket or enter one of our promotions to win, and the Iowa Lottery will never charge you to claim a prize."

In addition to the news conference in January, the Attorney General's Office and Lottery developed a consumer-protection campaign to warn against the scams. As part of that effort, radio ads have been run on stations across the state and ads warning about scam attempts have been placed on prominent Web sites in Iowa.

The Lottery also has added a new "Player Security" page to its Web site that provides information about the scams and other security tips. And, the Lottery has provided warnings about the scams through its retailer and player newsletters.

Lottery Budget Update

The Iowa Lottery's December report to the Oversight Committees included copies of the lottery's budget for fiscal years 2006-2008. The lottery provides copies of its budget each year to the Oversight Committees and in addition, detailed updates to its sales and budget figures are regularly provided through the state's I-3 accounting system so that the information is available to the Department of Management, the Legislative Services Agency and any other interested parties.

At its meeting on June 13, the Iowa Lottery Board voted to revise the lottery's FY 2008 budget to accommodate the salary-adjustment decisions made by the Iowa Legislature during the 2007 session.

Each year, the Legislature appropriates dollars from the general fund to the salary adjustment fund for distribution by the Department of Management to the various state departments, boards, commissions, councils and agencies. However, the Iowa Lottery does not receive any general fund money. Instead, the Lottery Board makes adjustments to the lottery's budget, which is wholly comprised of funds raised by the lottery, once the Legislature has made its salary-adjustment decisions. The salary adjustments include salary increases, increases in personnel health insurance, and increases in the employer match of deferred compensation as per the statewide collective bargaining contract.

As part of the lottery's standard procedures, the revised lottery budget figures have been entered into the state accounting system and are available for review by all interested parties.

The voting members of the Iowa Lottery Board are: Chairperson Tim Clausen, a Sioux City attorney; Elaine Baxter, a former secretary of state from Burlington; Mary Junge, an accountant and lawyer

from Cedar Rapids; Mike Klappholz of Cedar Rapids, the Cedar Rapids chief of police; and Tom Rial, a marketing consultant from Des Moines. State Treasurer Michael Fitzgerald is an ex-officio member of the Board.

Latest Audit Of Iowa Lottery

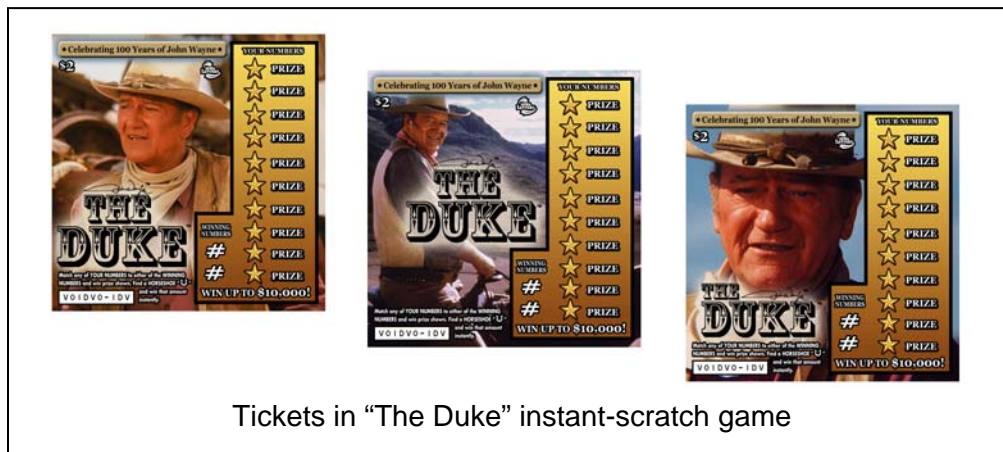
Each year, the Iowa Lottery is audited by the State Auditor's Office. The auditors review all aspects of the lottery's operations as required by state law. The auditor's efforts are in addition to the security and integrity standards the lottery has adopted and employed throughout its operations to ensure the veracity of its games.

State Auditor David Vaudt released the results of the FY 2006 audit of the lottery on Jan. 29. Copies of the audit are provided by the auditor's office to the governor, Department of Management, Legislative Services Agency, members of the lottery board and the lottery CEO. In addition, the audit report is available on the state auditor's Web site for all interested parties at:
<http://auditor.iowa.gov/reports/reports.htm>.

The audit of the lottery reported no material weaknesses in internal control over financial reporting and no instances of non-compliance or other matters reportable under Government Auditing Standards.

Spreading The Word About Iowa Initiatives

The Duke



Tickets in "The Duke" instant-scratch game

The Iowa Lottery joined in the celebration of 100 years of John Wayne with a new instant-scratch game honoring "The Duke."

The lottery partnered with Wayne Enterprises and John Wayne's birthplace to recognize what would have been his 100th birthday. Wayne was born in Winterset on May 26, 1907. To celebrate the Academy award-winning actor and Winterset's activities to mark his birthday, the lottery released "The Duke," a \$2 scratch game that bears three distinct images of John Wayne.

Tickets in the John Wayne scratch game went on sale May 14 and are available at lottery retailers statewide. The top prize in "The Duke" is \$10,000. All tickets that the lottery purchased in the game had been delivered to retailers within The Duke's first month on sale, and sales in the John Wayne game were outpacing sales in the lottery's two other most recent \$2 games.

The Iowa Lottery also featured the new scratch tickets at the John Wayne Birthday Centennial Celebration, May 25-27, at the Madison County Fairgrounds in Winterset. Organizers estimate that they festival brought as many as 20,000 fans to the area. The lottery had a festival tent at the centennial celebration and gave away John Wayne scratch tickets and other John Wayne items while supplies lasted.

The Duke was licensed to the lottery by New York-based Scientific Games Corp. Scientific Games donated about \$2,400 as a percentage of the licensing fee for the game to the construction of the John Wayne Museum that is under construction in Winterset.

Tax Amnesty Program

IOWA TAX AMNESTY

Late in the 2007 session, the Iowa Legislature passed the Iowa Tax Amnesty Act of 2007, which established a tax amnesty period from Sept. 4-Oct. 31, 2007. The bill, Senate File 580, requires the director of the Department of

Revenue and Finance and the Iowa Lottery to collaborate in television, print and radio advertising for the program.

The amnesty program will allow taxpayers who are delinquent on their state taxes to make their payments without prosecution. Fifty percent of the interest that the state normally would charge for back taxes and any additional penalties also will be waived during the amnesty period. The program's goal is to collect \$53 million in delinquent taxes.

In late May, staffers from the Lottery and Revenue and Finance began meeting with representatives from The Integer Group and Strategic America, the two advertising agencies with which the lottery has contracts for advertising services, to begin to craft a plan to provide information to the public about the tax amnesty program. The team will continue to collaborate in the coming weeks to ensure that public information materials and advertising for the program have been developed according to the timelines approved by the Department of Revenue. The ad campaign will include the suggested television, radio and print components, plus billboards, ads in specialty publications and Internet advertising.

At its June 13 meeting, the Iowa Lottery Board approved amendments to the lottery's advertising contracts to allow work on behalf of Revenue and Finance to be carried out under the contracts and for payment for those services to be billed back to Revenue and Finance. The Board also voted to approve a cooperative agreement between the Lottery and Revenue and Finance for the project, with a specified time period of May 17, 2007, to June 30, 2008.

New Games Ideas And Projects

Midwest Millions

In September, the Kansas and Iowa lotteries will become the first in the United States to offer a joint instant-scratch game. Players in both states will buy tickets and compete for prizes as part of one big game designed to test the "Powerball concept" that has worked so well in lotto games.

The game, called "Midwest Millions," will offer a higher prize percentage and greater number of large prizes than the two state lotteries have traditionally been able to offer on their own.



Ticket artwork in the "Midwest Millions" game

Kansas Lottery Executive Director Ed Van Petten found the inspiration for "Midwest Millions" in the success that Canadian lotteries have achieved by joining together to offer instant-scratch games with millions of dollars in prizes.

The provincial lotteries in Canada have successfully offered joint instant-scratch games since 1976. The multi-jurisdictional scratch games have been sold across that country and single games have offered prizes including \$1 million in cash, vehicles and vacation packages. While U.S. lotteries have worked together on promotions, advertising campaigns and even television game shows to support instant-scratch sales, to date, no U.S. lotteries have offered a joint scratch game with prizes in each jurisdiction offered as part of one big pool.

At one time, all lottery games were individual to the jurisdiction where they were offered. But lotto games such as Powerball and the Canadian instant-scratch games have proven that players are willing to compete as part of a larger game spanning multiple jurisdictions in exchange for bigger prizes and more chances to win.

As he continued to evaluate his idea in mid-2006, Van Petten, who has led the Kansas Lottery since 2000, contacted Iowa Lottery CEO Dr. Ed Stanek, the longest-serving lottery leader in the world and one of the co-inventors of the Powerball game. Stanek saw merit in the idea, and the two began the work of bringing a game to market.

The number of tickets that can be offered in a lottery game and the size and number of prizes that can be supported are dependent upon population. In 1992, Iowa, Kansas and 13 other lotteries joined forces to introduce Powerball, which has gone on to produce world-record jackpots and dozens of multi-millionaire jackpot winners.

By joining together to sell Midwest Millions, Kansas, with a state population of about 2.7 million people, and Iowa, with about 2.9 million people, will effectively double their population base for the game.

Tickets in the \$10 Midwest Millions game will feature scenes indicative of the states' shared agricultural heritage. Artwork on the tickets will include a picture of a sunflower (Kansas' state flower and a major cash crop) and an ear of corn (Iowa is the nation's top corn-producing state) along with a field full of round bales of hay in the background. The bales near the front of the scene have morphed into big round bales of money.

Midwest Millions will offer 1.2 million tickets, with 600,000 going to each state. The game will begin statewide sales in both states on Sept. 10. Instant prizes will range from \$10 to \$50,000 and two second-chance drawings will each offer a \$500,000 prize and 50 prizes of \$1,000. The first drawing in the game will be conducted Jan. 11 in Topeka, Kan. The second drawing will be April 18 in Des Moines. The top-prize winners could both end up being from one state, as could the 50 other winners in each drawing, although that isn't likely.

Electronic Game Card Update

In the lottery's December report, ongoing developments for the electronic game card product were discussed, including the Iowa Lottery's plan to release a fourth version of the product in spring 2007.

The Iowa Lottery was the first in the world to introduce the battery-powered version of the traditional instant-scratch game, which made its debut in October 2004, and has proven popular in the marketplace. Each electronic game card is about the size of a driver's license. Players have activated the cards by pulling off a plastic tab on the back, then pushing the "play" button on the front to get started.

Each play loaded onto the card is the equivalent of an individual scratch ticket. But in the case of the game card, an electronic play has replaced the traditional scratch area on a paper ticket. Small LED screens on the front of the game card have displayed the results of a particular play and shown whether that play has won a prize.

Plans to release a fourth version of the game card were cancelled early this year when the lottery could not be guaranteed of a dependable delivery schedule for the cards. The Iowa Lottery remains interested in the game card technology, however, and believes that kind of product holds promise for the lottery industry. Lottery executives continue to investigate prototype equipment similar to the game card to evaluate their appeal and potential.



Quarter Play, one of the Iowa Lottery's electronic game cards

Global Game Discussion

In July, lottery executives from the United Kingdom and France will visit Iowa to meet with Iowa Lottery CEO Dr. Ed Stanek and representatives from the Multi-State Lottery Association, which administers the Powerball game, to discuss the idea of a global lotto game.

While plans are still in the early discussion phase, 40 lotteries around the world, including the Iowa Lottery, have signed letters of agreement to work on the development of a lotto game that would involve lotteries in different countries and on different continents around the world.

Issues the lottery executives are considering include tax and international business law, organizational structure, currency differences and game design.

On-Going Issues

Unclaimed Prizes And Efforts To Call Attention To Them



On the scene at an unclaimed prize event in January in Onawa

Through the years, the Iowa Lottery has worked to inform the public about unclaimed prizes in its games, particularly those prizes that are nearing their expiration dates. The lottery's efforts often have been successful, with players remembering to check their tickets and then coming forward to claim the prizes.

But even with the lottery's best efforts, a few larger prizes have gone unclaimed in recent months, including a \$200,000-winning Powerball ticket sold in Des Moines that expired in March; and a ticket winning the top prize in Iowa's \$100,000 Cash Game that was sold in Davenport and expired in May.

The Lottery will continue its work to call attention to unclaimed prizes in the hope of finding the lucky winners.

The next unclaimed prize event is scheduled for July 2 at a Hy-Vee supermarket in Marion, where a \$200,000-winning Powerball ticket was sold on July 12, 2006, and remains unclaimed. A list of unclaimed prizes in Iowa lotto games is available on the Iowa Lottery's Web site at www.ialottery.com, and lottery representatives put up posters in retail locations listing unclaimed prizes.

Players in Iowa have up to 365 days from the date of the drawing to claim prizes in Powerball and Hot Lotto. Players have up to 90 days from the date of the drawing to claim prizes in the \$100,000 Cash Game as well as Pick 3 and Pick 4 games.

Progress In Lottery System Maintenance And Backup

Each night, the Iowa Lottery's sales and validations system is taken offline for security and accounting procedures that require data to be reviewed and stored. The lottery schedules the shutdown of its system for the overnight hours when many retail locations are closed and customer traffic is light.

The lottery has always worked to keep the shutdown period as short as possible, with both business continuity and customer service concerns in mind. Another important consideration is the lottery's participation in the state's Amber Alert system to help find abducted children. When its sales and validations system is down, the lottery is unable to send out messages regarding an Amber Alert.

Even until a few years ago, the nightly shutdown and backup process for the lottery's system could take a few hours or longer.

The Iowa Lottery is pleased to report, however, that it has continued to work with its system provider, New York-based Scientific Games Inc., and has reduced the nightly downtime for its system to an hour or less in most instances. While the lottery will not sacrifice its security and accounting requirements, it will continue to monitor its system activity to see if further improvements can be made.

Lottery Security Assistance To Law Enforcement

A recent case has illustrated the unique and valuable assistance that the Iowa Lottery's Security Department can give to law enforcement across the state.

Lottery tickets are an extremely secure product, with each ticket bearing a unique serial number that allows the lottery to track the ticket from the time it is printed until it has been validated. In addition, the lottery takes a number of steps to safeguard its products against theft, including placing tickets in vending machines or dispensers that are monitored by employees in retail locations.

Lottery tickets are sold in more than 2,600 retail locations across the state and while the number of tickets that is stolen each year is small, thefts do occur. From January through May, the latest month for which the lottery has complete security reports, lottery security investigated 25 cases of stolen tickets and worked with law enforcement to secure 26 arrests in those cases.

Because the lottery can track each ticket by the identifying serial numbers on it, lottery security is able to provide police with specific details that can help solve a crime, such as the exact time and location that a suspect attempts to cash stolen tickets.

Lottery Security Officer Larry Steele recently assisted the Davenport Police Department with a case that involved a man who had stolen lottery tickets, attempted to cash them and became involved in a physical altercation with the store clerk, customers and police officers.

Mr. Steele was working to compile the "cashing history" of tickets involved in that case when an automatic notification came into the lottery security department that someone was attempting to cash another stolen ticket. Steele told the clerk at the store to stall the man while he called the Davenport Police Department. When the police attempted to take the man into custody, the altercation occurred. The man was sentenced to five years in prison; he had an extensive criminal record and was wanted in Illinois.

Scott County Attorney William Davis wrote a letter to Steele, praising him for his help. "Without your assistance and cooperation we could not have secured a conviction," Davis wrote.

TouchPlay Lawsuits

During the 2006 session of the Iowa Legislature, legislation was passed that banned the operation of TouchPlay machines in Iowa. The lottery took steps to ensure that all machines were shut down by the deadline established in the legislation and all machines in the state were disabled by 11:59 p.m. May 3, 2006. The companies that owned the equipment have since removed the machines from retail locations.

More than 30 companies involved in the TouchPlay project have filed lawsuits over the shutdown of the program. As of late June, five separate lawsuits were pending in both state and federal court. In addition, several companies that were retailer-operators in the TouchPlay program owe the lottery money from the sales on the machines. The lottery collected revenues through electronic funds transfers (EFT) from the companies' accounts. In the final weeks of the program, the lottery was unable to collect funds from some of those accounts. As of late June, 14 companies owed the lottery a total of about \$2.4 million, and the lottery had filed counter-claims in court against 12 of those companies to try to collect the money that is owed.

The lottery continues to work with the Iowa Attorney General's Office about the TouchPlay-related legal matters. Under instructions from the Attorney General's office, the lottery is refraining from commenting further about the TouchPlay-related legal matters, other than to provide this listing of the lawsuits and their status:

1. Hawkeye Commodity Promotions, Inc.
(U.S. District Court, Northern District of Iowa, No. 06-CV-2026)
(8th Circuit Court of Appeals, No. 06-2406)
Hawkeye Commodity's request for an injunction was denied by the U.S. District Court. The case was appealed to the 8th Circuit Court of Appeals, which upheld the lower court's ruling. The time period for appealing that decision to the U.S. Supreme Court will expire on July 23.
2. Royal Financial; No. CL102586 (Polk County District Court)
Trial date scheduled for Nov. 5, 2007.
3. Camden; No. LACV055187 (Linn County District Court)
Trial date scheduled for Jan. 28, 2008.
4. Siggins et al.; EQ CL 53324 (Polk County District Court)
Trial date scheduled for April 21, 2008.
5. Howard Music; No. 107194 (Scott County District Court)
Trial date is scheduled for June 9, 2008.

Open Records Lawsuit Ruling

The lottery prevailed in a lawsuit filed by the Des Moines Register alleging an open records violation in the release of TouchPlay sales data in March 2006.

The case was presented to a Polk County District Court judge in October. The judge issued her ruling in December, denying the Register's claim. The judge ruled that "all of the information requested by

The Des Moines Register was promptly and timely supplied by the Iowa Lottery” and that “The Des Moines Register’s complaints in this regard are without merit.”

The judge also ordered the Register to pay its own attorney’s fees and expenses in the case. The time for appeal has expired and this case is closed.

New And Expanding Casinos In Iowa

In calendar year 2006, three new casinos opened in Iowa while another opened in early 2007. Expansions also are underway at several existing casino properties in Iowa, and a riverboat casino that currently splits its time between Fort Madison and Burlington has been given permission to operate as two permanent casinos in each of those communities.

While the Iowa Lottery does not consider itself to be in direct competition with casinos, it does compete with them and any other entertainment venue for consumers’ disposable income. When riverboat gambling was introduced in Iowa in the early 1990s and slot machines underwent a major expansion in the mid-1990s, there was a noticeable, negative impact on Iowa Lottery sales. After experiencing multiple-year declines, lottery sales in Iowa eventually stabilized and began to rebound in 2002. Lottery executives will continue to monitor casino expansion in Iowa and the potential impact that could have on lottery sales.

High Fuel Prices

Iowa Lottery executives continue to closely monitor fuel prices to determine their effects on lottery sales, operations and profits. Gasoline prices around the world have been in record territory for much of the past year and home heating and cooling costs also have been high.

With fuel prices cutting into consumers’ discretionary income, sales of lottery products and other convenience items could be impacted. And the lottery, like other businesses, has faced higher delivery costs and seen other budget impacts from the higher fuel costs.

But while some businesses can adjust the price of their products to pass along higher costs to consumers, that is not a possibility for lotteries, which sell products for firmly established prices such as 25 cents or \$1. An increase in the price of a lottery ticket from \$1 to \$1.05 would be shunned by consumers and have an extremely detrimental effect on sales.

U.S. Internet Gambling Legislation And The World Trade Organization

The U.S. Congress passed legislation in September 2006 designed to prohibit illegal Internet gambling. The legislation is intended to make it illegal for banks and credit card companies to make payments to illegal online gambling sites. Estimates before Congress took action were that more than \$12 billion was being wagered annually through more than 2,300 gambling Web sites, many of which were run from outside the United States.

In the weeks following Congress’ action, media reports from around the globe warned that Internet gambling operators were looking for loopholes in the new law.

In addition, leaders from the small Caribbean nation of Antigua and Barbuda informed the Bush administration in late June that their country was preparing to withdraw intellectual property protections for U.S. trademarks, patents and industrial designs because of the U.S. gambling legislation. The island nation claims that its annual revenue from Internet gambling has dropped from \$1 billion to \$130 million following implementation of the U.S. Internet gambling legislation.

Antigua and Barbuda had filed a complaint against the United States with the World Trade Organization, basing its arguments on the General Agreement on Trade in Services (GATS) that was signed in 1994.

A WTO dispute panel and appeals body both have found for the island nation. Under GATS, the United States agreed that it would not enact any laws or take any action that would be counter to open trade among nations signing the agreement. The United States agreed that entertainment and recreational services would be covered in GATS, but later argued that it did not mean for gambling to be included in that category.

Antigua & Barbuda had argued that because the United States allows casinos, lotteries and other forms of betting, it has no basis to claim that gambling shouldn't be included in GATS.

The outcome of the Antigua & Barbuda dispute remains to be seen. Iowa Lottery executives will continue to monitor developments.